

DHHS POLICIES AND PROCEDURES

Section IV:	General Administration
Title:	Monitoring of Programs
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Purpose

The purpose of this policy is to clarify the monitoring functions for the Department of Health and Human Services (DHHS). Effective monitoring provides programmatic and fiscal oversight to the management of services and programs offered by the DHHS.

Policy

Each division shall routinely evaluate subrecipients to whom funds are provided to carry out the programs of the department. Effective monitoring of funds granted to subrecipients is the responsibility of the director of the division/office that administers the program from which the funds are granted. For purposes of this policy, any entity, public or private, that meets the subrecipient criteria and expends funds received either directly or indirectly from the department shall be subject to the monitoring process. See Attachment A for definitions of terms associated with the monitoring function of DHHS and Attachment B for clarification of compliance requirement activities.

This policy is not meant to be all inclusive. Additional guidance shall be provided by the department's monitoring officer.

Implementation

Either the division director or the designated lead monitoring coordinator shall:

1. Develop an annual monitoring plan(s) for all subrecipients. The department's program monitoring officer will provide guidance on what should be included in a plan, but the divisions are responsible for development and customization of their plan according to their respective programs.
2. Work in conjunction with the department's program monitoring officer (located in the office of the controller) on issues of paybacks and corrective action plans and with the office of internal auditor on matters that merit further investigation through audits, etc.
3. Ensure that the division's monitoring function is coordinated with other divisions and local partners.

4. Ensure that all internal staff conducting any monitoring activity are trained and that efforts are coordinated internally.
5. Be responsible for posting to and keeping current an inter-divisional web site including a list of the division's subrecipients, assessment of risk for each subrecipient, monitoring results, leadership changes, a summary of corrective actions required, etc.

Department's Program Monitoring Officer

The department's program monitoring officer located in the DHHS Office of the Controller shall serve as the departmental coordinator for program monitoring. The department's program monitoring officer shall:

1. Provide technical assistance to division monitoring coordinators in the development of and revisions to the divisions' monitoring plans. Monitoring processes shall be standardized where possible and if appropriate. Develop generic monitoring guidelines for divisions to utilize and a comprehensive glossary of terms associated with the monitoring function of DHHS.
2. Develop and manage an inter-divisional web site. The site shall include contact information on division monitoring coordinators and designated division staff responsible for required monitoring activities, a list of subrecipients, contact information for subrecipient contract administrator for non-governmental agencies or agent for local governmental agencies, results/findings of previous monitoring visits (including corrective action plans), status of follow-up activities, status of paybacks, definitions of monitoring terminology, links to the record retention schedule and other relevant web sites.
3. Work with the divisions' lead monitoring coordinators to develop orientation and training programs to assure successful monitoring. Training shall target areas where there have been compliance problems, rules and regulations changes, and high risk of non-compliance/paybacks.
4. Prepare a summary of the department monitoring results at the end of every state fiscal year to be shared with division directors and other appropriate DHHS management staff so that divisions can make appropriate modifications to the monitoring plan(s) and improve the Single Audit Compliance Supplements for the subsequent year. The annual summary of monitoring results will also inform and shape the department's training needs for the subsequent fiscal year.

Description of Program Monitoring Functions

Monitoring is a review process used to determine a subrecipient's compliance with the requirements of a state, federal or other funding entity program, applicable laws and regulations, and stated results and outcomes. Monitoring also includes the review of internal control to determine if the financial management and the accounting system are adequate to account for program funds in accordance with state, federal or other funding entity program requirements.

Division program monitoring functions shall include, but are not limited to the following types of activities:

1. For governmental agencies, determine compliance with the federal and state programmatic and financial requirements for the particular program being monitored. For non-governmental agencies, review the contract between the division and the subrecipient agency regarding the federal and state programmatic and fiscal requirements/deliverables.
2. Assessing internal control over compliance requirements to provide reasonable assurance that: funds are disbursed to subrecipients only on an as-needed basis; that funds are disbursed to subrecipients only on the basis of approved, properly completed expenditure reports submitted on a timely basis; that refunds due from subrecipients are billed and collected in a timely manner through the DHHS Controller's Office Accounts Receivable Section and that subrecipients and other entities and individuals receiving funds meet eligibility requirements and documentation standards including appropriate record retention.
3. Reviewing financial and program reports received from subrecipients on a timely basis and investigating unusual items.
4. Reviewing audit reports to evaluate a subrecipient's compliance with applicable laws and regulations.
5. Evaluating audit findings: provide recommendation on appropriate management decisions in conjunction with the DHHS Controller's Office, and determining whether an acceptable corrective action plan has been prepared and implemented. For further clarification of audit result resolutions, see DHHS Policy and Procedure Manual.
6. Performing site visits to review financial and programmatic records and observe operations. Prior to a monitoring visit, division/office monitors should review the DHHS Monitoring Website to determine if the subrecipient has previously had a monitoring visit and to review the risk assessment and previous monitoring compliance concerns.
7. In cases where more than one (1) division awards funding to a subrecipient, monitoring efforts shall be, to the maximum extent feasible, a collaborative effort to minimize duplicative work by each division and to minimize work disruption on the

subrecipient.

If a division identifies an area of non-compliance that falls within the purview of another division, the funding division affected must be notified immediately. The division funding the program in which deficiencies were noted is responsible for writing any required corrective action plan, for subsequent follow-up and posting to the website.

In situations of general deficiencies (as opposed to programmatic deficiencies) such as inadequate internal control over financial management and accounting systems, the DHHS funding division with the greatest amount of funding to the subrecipient will oversee the corrective actions unless there is justification and agreement for another funding division to be the primary monitor.

8. If a division suspects fraud, the division shall prepare a NC State Bureau of Investigation (SBI) report and consult with the DHHS Office of the Internal Auditor (OIA) and the DHHS Division of Budget and Analysis (B&A). In the event that the OIA agrees that the division's suspicions are well founded, the OIA will coordinate an audit/investigation as deemed appropriate with the office of state auditor, internal staff, federal authority, local law enforcement authorities, and/or the SBI.

Divisions should use outside monitoring assistance such as limited audit engagements, subrecipient internal auditors, and quality control programs. These local resources may reduce the divisions monitoring work and can assist in monitoring activities by providing assurances as to compliance with applicable rules and regulations. When used, these outside (local) resources shall be identified in the division's monitoring plan and documented as part of the individual entity monitoring efforts. Division lead monitoring coordinators may request subrecipient single audit auditors to look at various compliance areas of concern with a particular entity.

Whenever possible, divisions should appoint personnel that are full-time monitors to ensure independence and objectivity, which may be impaired if the monitor also performs management and administrative functions.

Division Monitoring Plan

Each division with subrecipients shall develop and maintain a monitoring plan in accordance with this policy. This plan shall be the basis for monitoring program and fiscal compliance with state and federal requirements. The primary objective of the monitoring plan(s) is to ensure that subrecipients are complying with applicable rules and regulations and that the program(s) are accomplishing their intended purpose(s). At a minimum each plan shall include:

1. The name of the division's lead monitoring coordinator.

2. A list and description of all subrecipients to be monitored (this includes programs funded with state, federal, and/or private dollars).
3. Identification of the type of subrecipients (not-for-profit, governmental organization, public authority, for-profit) and the type and amount of funding (segregated between federal, state and other funding wherever possible).
4. Identification of specific monitoring activities to be performed, including review of: contracts, internal controls on the disbursement of funds, and eligibility of subrecipients, financial and programmatic reports, single audit findings, limited audit engagements.
5. The criteria to be used to complete an assessment of the risk of the subrecipient's ability to meet the objectives of the program and to comply with the program rules and regulations, and meet the financial management requirements. These criteria may include the size of the award, the complexity of the program, prior experience with the subrecipient, the cost-effectiveness of monitoring evaluations, past experience with paybacks, multiple funding sources, commingling of funds, and changes in management.
6. Procedures that are consistent with the assessment of risk for each subrecipient. These procedures may include: increasing/decreasing the frequency of review, expanding the sample for review, conducting desk audits, etc. Procedures must include written notification informing subrecipients of the results of the monitoring.
7. Process for reviewing previously identified deficiencies to determine if corrective action was taken.
8. Regular review of and input into the DHHS monitoring website to determine whether previous issues have been resolved, that data is current, and for coordination of on-site monitoring visits.
9. Specific procedures that will address relevant compliance requirements for each type of funding. The following requirements have been identified in the compliance supplements (See Attachment B for further clarification):
 - A. Activities Allowed or Unallowed;
 - B. Allowable Cost/Cost Principles;
 - C. Cash Management;
 - D. Davis-Bacon Act;
 - E. Eligibility;
 - F. Equipment and Real Property Management;
 - G. Matching, Level of Effort, Earmarking;
 - H. Period of Availability of Federal Funds;
 - I. Procurement, and Suspension and Debarment;

- J. Program Income;
- K. Real Property Acquisition and Relation Assistance;
- L. Reporting;
- M. Subrecipient Monitoring; and
- N. Special Tests and Provisions.

- 10. Process for assessing “Conflict of Interest” policies.
- 11. Designated staff responsible for required monitoring activities, designated staff responsible for maintaining monitoring documentation, and designated staff responsible for follow-up procedures.

Attachment C DHHS Monitoring Responsibility Matrix provides an overview of the responsibilities outlined in this policy.

ATTACHMENT A

DHHS DEFINITIONS OF MONITORING TERMINOLOGY

Cost Allocation Methodology – Cost allocation plans must provide an explanation of cost and the allocation basis that is proposed.

Cost Deferral – Communication from the grantor agency that notifies a subrecipient that a cost that was claimed for reimbursement is being questioned and delayed pending clarification.

Cost Disallowance – A cost that is determined to be unallowable based on criteria established by the grantor.

Desk Audit – A task performed by the grantor involving a review of the fiscal and/or programmatic records maintained by a subrecipient entity. A desk audit is considered a monitoring tool and is often performed as part of a larger monitoring effort. Desk audits are not usually subject to standard written guidelines and are considerably less involved than a yellow book or a single audit. They are normally prepared off-site and are limited in scope.

Federal Audit – Generally speaking, an audit of a non-federal entity performed by a federal agency. Usually, a federal audit is performed by the federal “cognizant” agency, or the federal agency that provided the predominant amount of federal funding to the auditee. While programmatic in nature, a federal audit can also include a review of the auditee’s financial records and internal controls.

Financial Assistance (FA) – Federal or state assistance that the state provides to recipients in the form of grants, loans, loan guarantees, property (including donated surplus property), cooperative agreements, interest subsidies, insurance, food commodities, direct appropriations, and other assistance, but generally does not include amounts received as reimbursement for services rendered to individuals such as Medicare and Medicaid (*NOTE: All state contracts must be reviewed to determine whether they are “financial assistance” or “purchase of service” type contracts. This determination is necessary to establish whether the contracting agency is a subrecipient or a vendor and must be made by each entity to which the funds are further subgranted (or awarded under contract). Those deemed to be the FA type are subject to the financial reporting requirements of the federal Office of Management and Budget’s Circular A-133 and/or the Office of the State Auditor’s Audit Advisory #2. Those deemed to be the POS type generally have no reporting requirements and usually require only the satisfactory delivery of the goods or services being purchased. For specific guidance about FA/POS contract determination (i.e., distinguishing between a subrecipient and a vendor), please refer to APA Rule #T10: 01B .420 and OMB Circular A-133, Subpart B, Section .210).*

Financial Statement – A set of documents which outlines/summarizes the revenues and expenditures of an organization.

General Audit (Annual CPA) – Refers to a basic financial statement audit, otherwise known as a “general purpose financial statement audit”.

Grantor – An entity that provides resources, generally financial, to another entity in order to achieve a specified goal or objective.

Indirect Cost – Indirect cost represents expenditures in support of administrative but that are then allocated to the federal and state programs that benefit from the administrative activity.

Internal Controls – The set of written guidelines, policies, and actions that seek to maximize fiscal integrity and minimize the likelihood of misappropriation/misuse by establishing a clearly defined and implemented set of financial checks and balances within an organization.

Monitoring (Program and Fiscal) – “Program Monitoring” means activities performed by the awarding agency to ensure that compliance requirements are being met with respect to the intent of the federal and state award. “Fiscal Monitoring” means activities performed by the awarding agency to ensure that funds are being expended as intended to carry out the objectives of the program(s). Monitoring activities may take various forms, such as desk audits, reviewing reports submitted by the subrecipient, performing site visits to the subrecipient to review financial and programmatic records and observing operations, arranging for agreed-upon procedures for certain aspects of subrecipient activities, such as eligibility determinations, reviewing the subrecipient’s single audit or program-specific audit results and evaluating audit findings and the subrecipient’s corrective action plan.

Non-Profit State Accountability Act – Refers to the reporting requirements as defined in GS 143-6.1 and to Audit Advisory #2 issued by the office of state auditor. These references address the auditing and reporting requirements of all non-governmental entities that receive financial assistance from state agencies.

Pass-through Entity – As it relates to federally funded programs, a non-federal entity (i.e., the state) that provides a federal award to a subrecipient to carry out a federal program. As it relates to state-funded programs, a non-state entity (i.e., a local government or a nongovernmental entity) that provides a state award to a subrecipient to carry out a state program. Pass-through entities are responsible for monitoring grants to provide reasonable assurance that funds are expended in accordance with state and/or federal requirements.

Payback – A cost that must be repaid because it is determined to be unallowable based on criteria established by the grantor.

Purchase of Service (POS) – The purchase of goods or services from a vendor (e.g., a dealer, distributor, merchant, or other seller) for the purpose of carrying out a federal or state

program. These goods or services can be for the organization's own use or for the use of beneficiaries of the federal program (*see NOTE shown under "Financial Assistance (FA)"*).

Sampling – The process of selecting and testing a sample set of transactions to determine the projected error rate that shall be applied to all transactions.

Single Audit – An audit that includes both the auditee's financial statements (i.e., a yellow book audit) and compliance with the requirements of the federal and/or state awards. "Single audit" signifies that two (2) or more things that could be audited separately are being covered under one (1) audit, rather than separate audits. The threshold requirement for a single audit applies to any entity that receives \$300,000 or more in federal funds. (Please note that monitoring has no similar thresholds but is a consideration in developing a risk assessment and monitoring plan.) Also reference NC GS 159.34 regarding State Single Audit Act.

State Audit – Generally speaking, an audit performed by the NC Office of the State Auditor of a department or division as part of the state's single audit. However, this term may also refer to subrecipient monitoring activities performed by the awarding state agency. "State Audit" can also refer to a NC Performance Audit as requested by the NC General Assembly or management within state government. A NC Performance Audit often reviews the effectiveness or efficiency of a program or service or adherence to statutes and program policy.

Subgrantee – The term "subgrantee" and "subrecipient" are often used interchangeably. Refer to the definition of "subrecipient" below.

Definition of a Subrecipient – A subrecipient is a non-federal entity that expends state, federal or other funds received from the state to carry out a state or federal program. For federal financial assistance, Circular A-133 defines a subrecipient in .105, provides guidance on distinguishing between a subrecipient and vendor in .210, and requires pass-through entities to monitor subrecipients in .400. North Carolina General Statute 143-6.1 establishes corresponding requirements for all entities receiving state funds including federal funds appropriated by the NC General Assembly. North Carolina Administrative Code 10 NACAC 01B.0420 provides guidance in distinguishing between financial assistance received by a subrecipient and purchase of service from a vendor. The DHHS Contracts Manual provides direction in determining whether a recipient/ subrecipient or vendor relationship exists. In making the determination whether a subrecipient or vendor relationship exists, the substance of the relationship is more important than the form of the agreement. This definition is not meant to be all inclusive. Additional guidance shall be provided by the department's program monitoring officer.

Withholding of Funds – The method by which the grantor recoups funds from a subrecipient entity by withholding (i.e., netting) such amounts from future disbursements to that entity. This is a method utilized by the funding agency to force a payback.

Yellow Book Audit – A financial audit including an assessment of internal controls that is performed in accordance with “generally accepted government auditing standards” (GAGAS) issued by the Comptroller General of the United States.

ATTACHMENT B

COMPLIANCE REQUIREMENT ACTIVITIES

1. Activities Allowed or Unallowed

- Specifies the activities that can or cannot be funded under a specific program.
- Adherence to Administrative funding limits.

2. Allowable Cost/Cost Principles

- Cost must be reasonable and necessary for the performance and administration of federal awards.
- Allocable to the federal awards or CASB (Cost Allocation Standards Board Standards).
- Consistent treatment through GAAP (generally accepted accounting principles).
- Conform to any limitations or exclusions set forth in the federal regulations and circulars, NC General Statutes and State policy.
- Must be net of applicable credits (program generated income).
- Cost must be properly documented.
- A cost allocation plan (CAP) or indirect cost rate proposal (IDCRP) must be either submitted to the federal cognizant agency for indirect cost negotiation for approval or developed and maintained on file in accordance with applicable federal regulations.

3. Cash Management

- When entities are funded on a reimbursement basis, program costs must be paid for by entity funds before reimbursement is requested from the state.
- When the funds are advanced, awarding divisions/offices must follow procedures to minimize the time elapsing between the transfer of funds from the U.S. Treasury and disbursement.
- Pass-through entities must establish reasonable procedures to ensure receipt of reports on subrecipients' cash balances and cash disbursement.
- Interest earned on advances by local government grantees and subgrantees is required to be submitted promptly, but at least quarterly, to the federal agency. Up to \$100 per year may be kept for administrative expenses. Interest earned by non-state nonprofit entities on federal fund balances in excess of \$250 must be remitted to Federal

4. Davis-Bacon Act

When required, all laborers and mechanics employed by contractors or subcontractors to work on construction contracts in excess of \$2,000 financed by federal assistance funds must be paid wages not less than those established for the locality of the project.

5. Eligibility

The specific requirements for eligibility are unique to each federal/state program and are found in the laws, regulations, and the provisions of contract or grant agreements pertaining to the program.

6. Equipment and Real Property Management

Title to equipment and real property acquired by a non-federal entity with federal awards vests with the non-federal entity, but the division granting the federal funds must approve disposition or transfer of such equipment.

7. Matching, Level of Effort, Earmarking

- Matching or cost sharing includes requirements to provide contributions (usually non-federal) of a specified amount or percentage to match federal awards. May be allowable costs incurred, cash or in-kind contributions.
- Level of effort includes requirement for a specified level of service to be provided from period to period, a specified level of expenditures from non-federal or federal sources for specified activities to be maintained from period to period and federal funds to supplement and not supplant non-federal funding of services.
- Earmarking includes requirements that specify the minimum and/or maximum amount or percentage of the program's funding that must/may be used for specified activities, including funds provided to subrecipients. Maybe also for specified in relation to the types of participants covered.

8. Period of Availability of Federal Funds

Federal awards may specify a time period during which the non-federal entity may use the federal funds. Non-federal entities subject to the A-102 /Common Rule shall liquidate all obligations incurred under the award not later than 90 days after the end of the funding period to coincide with the submission of the annual financial status report. The federal agency may extend this deadline upon request.

9. Procurement and Suspension and Debarment

- States, governmental subrecipients of states, shall use the same policies and procedures used for procurement from non-federal funds.
- Non-federal entities are prohibited from contracting with or making subawards under covered transactions to parties that are suspended or debarred or whose principals are suspended or debarred. Covered transactions include procurement contracts for goods or services equal to or in excess of \$100,000 and all non-procurement transactions.

10. Program Income

- Program income is the gross income received that is directly generated by the federally-funded project during the grant period. Program income includes but not limited to:
 - a. Fees from services performed;
 - b. Use or rental of real or personal property acquired with grant funds;
 - c. The sale of commodities or items fabricated under a grant agreement; and,
 - d. Payments of principal and interest on loans made with grant funds.
- Program income does NOT include proceeds from the sale of equipment or real property.
- Uses of Program Income:
 - a. Deducted from outlays;
 - b. Added to project budget; and,
 - c. Used to meet matching requirements.

11. Real Property Acquisition and Relocation Assistance

Uniform and equitable treatment of persons displaced by federally-assisted programs from their homes, businesses, or farms. Property acquired must be appraised by qualified independent appraisers. All appraisals must be examined by a review appraiser to assure acceptability. Federal requirements govern the determination of payments for replacement housing assistance, rental assistance, and down payment assistance for individuals displaced by Federally-funded projects. The regulation also covers the payment of moving-related expenses and reestablishment expenses incurred by displaced businesses and farm operations.

12. Reporting

Each recipient must report program outlays and program income on a cash or accrual basis, as prescribed by the federal or state awarding agency. If the federal or state awarding agency requires accrual information and the recipient's accounting records are not normally maintained on the accrual basis, the recipient is not required to convert its accounting system to an accrual basis but may develop such accrual information through analysis.

13. Subrecipient Monitoring

- A *pass-through entity* is responsible for:
- Identifying to the subrecipient the federal award information and applicable compliance requirements.
- Monitoring the subrecipient's activities to provide reasonable assurance that the subrecipient administers federal awards in compliance with federal requirements.
- Ensuring required audits are performed and requiring the subrecipient to take prompt corrective action on any audit findings.
- Evaluating the impact of subrecipient activities on the pass-through entity's ability to comply with applicable federal regulations.
- Factors such as the size of awards, percentage of the total program's funds awarded to subrecipients and the complexity of the compliance requirements may influence the extent of monitoring procedures.
- Monitoring activities may take various forms, such as reviewing reports submitted by the subrecipient, performing site visits to the subrecipient to review financial and programmatic records and observe operations, arranging for agreed-upon procedures engagements for certain aspects of subrecipient activities, such as eligibility determination, reviewing the subrecipient's single audit or program-specific audit results and evaluating audit findings and the subrecipient's corrective action plan.

14. Special Tests and Provisions

Specific requirements are unique to each federal program and are found in the laws, regulations, and provisions of contract or grant agreements pertaining to the program. For programs not listed in the compliance supplement, the auditor shall review the program's contract and grant agreements and reference laws and regulations to identify the compliance requirements and develop the audit objectives and audit procedures which could have a direct and material effect on a major program. The auditor should also inquire of the non-federal entity to help identify and understand any special tests and provisions.

For both programs included and not included in the compliance supplement, the

auditor shall identify any compliance requirements which are not based in law or regulation which could be direct and material to a major program.

SOURCE: OMB Circular A-133 Compliance Supplement – Part 3, dated March 2000

ATTACHMENT C

DHHS MONITORING RESPONSIBILITY MATRIX

DHHS PROGRAM MONITORING OFFICE	DIVISION MONITORING COORDINATOR	OFFICE OF INTERNAL AUDIT
Develop generic monitoring guidelines for divisions to utilize and a comprehensive glossary of terms associated with the monitoring function of DHHS.	Designated lead monitoring position will be responsible for training and coordination of all division monitoring staff and efforts.	Review and coordinate as appropriate with NC Office of State Auditor and State Bureau of Investigations (SBI)
Provide technical assistance to division monitoring coordinators in the development of the division's monitoring plans.	Develop program specific monitoring plans to for each division's programs based upon past monitoring findings and must tie into the single audit compliance supplements.	Periodic Review of division's monitoring plans and activities
Coordinate changes to monitoring tools based on information provided by divisions	Develop program specific assessment tools based on audit supplements, past monitoring efforts, and areas of risk.	Periodic review of monitoring tools to determine adequacy in evaluating fiscal and programmatic functions.
Coordinate scheduling of training to the division monitoring coordinators. Training will focus on monitoring findings identified by the divisions.	Review audits of subrecipients, assess subrecipient risk and conduct monitoring visits and/or desk reviews of subreipients.	Provide technical assistance on a request basis.
Maintain the DHHS monitoring web site with DIRM support	Populate the DHHS monitoring web site—i.e., subrecipient listings, risk assessment, monitoring evaluations, corrective action plans, etc.	
Provide year-end summary analysis of the monitoring reviews conducted and provide to division directors and management team as appropriate. This will focus on the top program/fiscal areas of concern.	Prepare formal monitoring correspondence with subrecipient on corrective actions to be taken. Coordinate serious non-compliance findings with the DHHS Office of Internal Auditor.	

	Follow-up corrective action plans to point of resolution. Correspondence to subrecipient when all findings are closed. Update NC Office of Internal Auditor	
	Using the DHHS monitoring web site, coordinate monitoring visits/reviews with other divisions	
	Coordinate with the DHHS Controller's Office on paybacks of disallowed costs.	

For questions or clarification on any of the information contained in this policy, please contact [The Office of the Controller](#). For general questions about department-wide policies and procedures, contact the [DHHS Policy Coordinator](#).